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Regional Policy in the Czech Republic in the Period Around Its Accession to the European Union

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This study analyses critical issues of the preparation for using structural assistance in the Czech Republic after its entry to the EU – i.e. the absorption capacity of the CR.

The main issues of this study are whether the Czech Republic will have:

- functional implementing structures and corresponding human resources – an institutional preparedness
- sufficiency of well-prepared projects – a project preparedness (project pipeline)
- sufficiency of means for co-financing – providing co-financing

Regional Policy in the Czech Republic

One of the missions of the regional policy is to provide support to less developed regions and equalise regional disparities. The regional policy in the Czech Republic was activated at a time of significant increase in regional disparities at the end of 90's. It is mostly concentrated on regions with structural difficulties. At the present time, the Czech Republic is using pre-accession assistance but facing a much more important challenge – using the Structural Funds and the Cohesion Fund. It will be a reflection of the preparedness and the ability of the Czech Republic to maximise advantages coming from membership in the EU.

Factors which negatively affect the preparation process of using structural assistance and which may cause problems in the future (especially in case of Structural Funds) include:

- belated “start” of regional policy in the CR in comparison with other candidate countries
- unfinished reform of public administration (professionalisation and modernisation) and delayed decentralisation (establishing regional self-government)
- announcement of the European Commission about a reduction of volume of the structural assistance

Policy of Economic and Social Cohesion

A “policy of economic and social cohesion” (structural policy) exists in the EU. It was formed by integrating regional, social and parts of the agricultural policy. Cohesion policy is considered to be the second most important policy in the EU because it spends one third of the total union's budget. It will depend on the Czech Republic if it has the capacity to utilise all the money which it can claim, because it will receive this assistance only after meeting strict conditions.

Criteria required for successful use of structural assistance are:

- legislative framework
- prepared programming documents approved by the European Commission

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- institutional preparation – effective and transparent managing authorities and accredited controlling system
- quality projects ready to be realised – project pipeline

The document called “Finishing of a preparation of programme documents and an appointment of managing and payment bodies for using Structural Funds and the Cohesion Fund” is a key document for preparatory process and a basis for implementing programmes of Structural Funds.

Preparedness for receiving structural assistance – absorption capacity

The institutional preparedness

An act on support of regional development (No. 248/2000) has harmonised the basic principles and procedures with cohesion policy of the EU. But legislative changes in related and conditional areas still remain.

The disadvantages of the act are a missing link (reference) with programme documents of the cohesion policy (National Development Plan and Operational programmes – more 3.1.) and a limited spectrum of tools for a modern approach of regional policy.

The programming preparedness

The Czech Republic has a “double pack” of programming documents – one for the Czech regional policy (Regional Development Strategy of the CR, developing programmes of regions) and one for the cohesion policy (National Development Plan and Operational Programmes). Many different development documents exist in the CR but there is no strong link between their priorities. This situation might be called “over-programming”. These documents are very general and their priorities are wide, unclear and overlapping. Consequently, they are rightly criticised, not only by EC.

The European Commission has defined some recommendations on the basis of submitted drafts of the National Development Plan:

- to create a transparent, simple system of operational programmes and establish an implementation structure;
- to minimise the number of documents, eliminate an overlapping of their priorities and to provide better specification and targeting.

So far, a number of documents has been reduced in the case of Regional Operational Programmes only – merged to one document: Joint Regional Operational Programme (JROP). Each of the seven regional level NUTS II have their own sub-programme. JROP does not take into account specific priorities of some regions – it solves “only” common priorities. Advantages of this document are simplification and a shortening of the process. But it allows transferring finances in case one region is not able to use the whole volume of assistance. This is better for more experienced regions.

The number of Sectoral Operational Programmes (SOP) has not been changed so far. It would be appropriate to reduce their number and this idea has been considered. Operational programmes – Tourism and Spa industry, Environment, Transport – should be deleted because their priorities are in other documents (mostly in JROP). Only three sectoral programmes (from the six) would leave – Operational Programme Industry, Human resources development, and Rural development and multi-functional agriculture. One question still remains – why the preparation for these documents still continues if there is a real assumption that they will not be used at all.

Present development programmes are set up as “maximum”, which means much higher volume of assistance. Because of the reduction of assistance from the EU, better targeting and real or “prior” priorities will be necessary. The Czech Republic will have to decide “what to invest in” (for example, in the sphere of infrastructure or in the sphere of human resources development).

The institutional preparedness – central level

No uniform model of institutional structure for administration of structural assistance exists in the EU (no detailed rules exist but the basic structure set by Direction EC No. 1260/1999 must be respected).

Central bodies – competent ministries and their implementing agencies – should have enough experience because they have been preparing for Structural Funds and the Cohesion Fund within pre-accession assistance for a relatively long time. But instability of the system and structures of public administration – mostly turnover of qualified experts, political replacement of managers and changes in structures – pose a serious problem.

The general problem is a low level of coordination and cooperation and a reluctance of communication among and within public administration bodies. This is more serious especially in this field where higher level of cooperation among responsible ministries and their implementing agencies is necessary. The government should pay more attention to this problem and “supervise” coordination.

In spite of the decentralisation process and an effort of subsidiarity (promoted in the EU), central bodies have kept competencies strong by the system of programming and financing proposed by the EU. An influence of central bodies on the regional level (in the case of JROP) will be preserved through Regional Executive Units – a regional representation of the Centre for Regional Development (respectively Ministry for Regional Development). A debate about whether administering assistance through agencies (for instance, a network of Regional development agencies – RDA) or state bodies still continues. But functional structures with clearly defined and allocated complementary competencies are prior in this debate.

Functional structures – personnel occupation and implementing rules are crucial for the European Commission (especially in the case of JROP because of closer cooperation and coordination between the regional and central level). Therefore, the Commission carefully observes the preparation process, including occupation of key positions and also requires the CR to submit “Strategy of administration capacity building for providing functional implementing system for using Structural Funds and the Cohesion Fund”.

The institutional preparedness – regional level

In general, regional and local self-government expects financial assistance from Structural Funds to cover their investments but there is a problem with their preparedness. Regional self-government has begun to prepare for Structural Funds with delay, due to large and complex training of their officials at the present time. Existing training has been limited to grant schemes, for example within the Phare programme. An initiative of the region’s representatives together with their ability to attract investment and the preparedness of the region’s officials will mean substantial comparative advantage for the region.

Regional level NUTS II, artificially set up units for structural assistance, continues to be criticised. Any change in their delimitation is not possible from a practical and political point of view, but mainly there is no time for it. These regions and their bodies (Regional Councils) also face legal personality problems.

Regional self-government sometimes has no need to establish specific partnerships including other regional actors. They regard voted regional representatives as representative enough. This situation is gradually changing and some of the regional actors are integrated in these partnerships. Complex identification of these actors is necessary.

Existing differences in preparedness of regions rise from their practical experiences with pilot programmes (Moravia-Silesia and North-West) and Phare Cross-Border Cooperation programmes (German and Austrian border). These experiences mean substantial advantages for these regions. Danger could come from “rivalry for Structural Funds” between more and less experienced regions which could put more pressure on an increase in regional disparities. Therefore, “less-experienced regions” will have to speed up their preparation and spend more money for training their human capacities.

A utilization of pre-accession structures

The purpose of the pre-accession assistance is to get experience with preparing and implementing EU programmes, and to build up relevant mechanisms and structures. In general, a utilisation of these structures is very limited because of differences in both systems and their requirements.

The Phare 2003 programme should fully respond to requirements of the Structural Funds. The year 2003 is the last chance to finish preparation for structural assistance; otherwise, the Czech Republic might miss its chance to utilise these means.

The project preparedness – project pipeline

A sufficiency of prepared projects is a main precondition of using EU assistance. Potential projects in most cases have already been identified and their databases have been created (but mostly without a financial plan). A lack of correspondence between expectations of projects on one side and the project's eligibility and co-financing capacity on the other is the general problem. "Pilot" pilot projects, which are projections of priorities and measures of both developing programmes of regions and Joint regional operational program, have already been chosen for the first phase of implementation.

Project preparation is quite difficult and will cause problems for many potential applicants – it will pose higher costs for them and some of the applicants might be discouraged from even applying. We can talk about establishing "a class of consultants" who are able to prepare an application for the potential applicants. Regional Development Agencies have a specific position because they prepare applications for municipalities on a commercial basis and they are administrators of these programmes (e.g. Phare CBC programme).

Municipalities do realize the need to manage these tools (Structural Funds). Otherwise, it will be very difficult for them after accession. One might call it "project preparation literacy".

The financial preparation – providing of co-financing

Previously, there was concern about a lack of public finance for providing co-financing in the Czech Republic. With regards to this, the Czech Republic will receive substantially less money than was expected. From a national point of view, there should be no problem with co-financing. It will be a problem, however, in the case of some individual projects.

Structural assistance from the EU will be refunded after closure of a project. Therefore, financing a project will have to be ensured before or during its implementation. Because the system is so exacting, there is an effort to assert advance payment financing.

One possibility for providing co-financing is bank loans from domestic and international banks. Banks generally regard self-governments as a good credit rating client. Nevertheless, higher indebtedness of self-government puts more pressure on the public deficit. Some banks have already considered the possibility of funding self-government projects. It will be necessary to watch indebtedness of municipalities and regions and to set a limitation framework. Another possibility for co-financing is to encourage the private sector to support a partnership between themselves and self-government.

The creation of an appropriate system of its own financial sources is also necessary not only for the regions but for the whole self-government in the CR. This system based on tax revenues has to be motivating and stable enough to strengthen their fiscal autonomy and to create an efficient economic instrument.

The total volume of financial assistance administered through central (state) bodies will be almost 60% (one third of the total assistance will be financed by the Cohesion Fund through the centre and more than one third will be financed by the SOPs within the ministries' competencies). This system of allocation supports the stronger position of the centre and might be considered suitable if it helps raise the effectiveness of using structural assistance.

Recommendations and Conclusions

- The year 2003 is the last year for preparation for receiving structural assistance. The Czech Republic will have to finish building administrative structures and relevant human resources; otherwise, it will not be able to fully utilize money from EU funds. That means concentration of effort and attention.
- The reduction in EU assistance will require reassessment of present programming documents and choosing prior priorities – “real priorities”, including well prepared projects.
- The EU regards the stage up to the end of the present programming period (2004 – 2006) as a learning/exercising stage. All effort should be focused on establishing a simple but functioning system providing full use of the assistance – it might be called “concentration of effort”. That means to reduce the number of sectoral operational programmes (from six to three) and to eliminate overlapping programme priorities. It also means to ensure transparent administrative structures (it will be a problem to utilize the present system and structures). This idea has to be understood in the same way in the CR, as well.
- A formal setting up of structures does not pose a problem for building the institutional framework, but most of the attention has to be paid to human resources development. Complete reform of public administration (its modernisation and professionalisation) is also a priority. On the central level there should be a stability of structures and personnel occupation (not preserve the present state), professionalisation of officials, and an improvement of coordination and mutual communication.
- Regions should train their officials (experts) together with other regional actors who should be identified and more involved in the partnerships (i.e. NGOs in programming, private sector in co-financing). Politicians on every level should be more informed and better trained, as well. A “Strategy of administration capacity building for providing functional implementing system for using Structural Funds and the Cohesion Fund” should be developed.
- The Czech Republic has to build a system of self-financing of municipalities and regions from taxes (i. e. to amend the act on tax allocation) and has to activate other financial resources, such as engaging the private sector to help co-finance. The Czech Republic should negotiate a system of advance payments (at least in some areas), or establish conditions for bridging loans (with interest rate subsidies or special funds providing concessional loans).
- The efficiency of using EU money should be observed in order to develop an analysis of structural assistance impacts, including the negative influence on trade and price balance and on competition and competitiveness, eventually to create decision support models.
- The Czech Republic should regard the cohesion policy as a way to reduce present imbalances within the EU (Czech regions are below the average of the EU), as well as within the Czech Republic.
- Keep in mind that the present system of structural assistance in the EU will be reformed for the next period (2007 – 2013). The Czech Republic should focus on closer cooperation with Czech representatives in Brussels to assert Czech interests, such as defining the objectives of the structural policy. The structural assistance from EU funds will be temporary; therefore, the Czech Republic should not be so dependent on it. The stress should be put on long-term qualitative transformation through activating the internal potential of each region (stimulation of entrepreneurship through human development).